

THE BUDGET PROCESS

Nearly all policies and actions of the City of Wichita involve resource allocation. Central to the allocation process is the development of financial trends and the annual operating and capital improvement program budgets.



Customarily and as the budget development calendar on the preceding page indicates, the *Financial Plan* has been prepared and distributed prior to budget preparation. The *Financial Plan* is the basis for many funding assumptions in the budget document.

The Budget Cycle

The City of Wichita utilizes a two-year, rotating budget cycle, meaning that revenue and expenditure budgets are prepared annually, by fund, and revised for the next two calendar years. In the process that was completed in August, 2000, the City Council approved a revised expenditure plan for the 2000 budget, adopted a 2001 budget and approved a 2002 budget.

In accordance with state law, the City submits the annual budget to the state for certification of funds that operate under a tax lid. If increased expenditure authority is needed in the revised budgets of the certifiable funds, the City Council must formally approve a revised budget for re-certification of the fund budget to the county.

While the City is developing its annual operating budget, a parallel process is taking place with respect to the capital improvement program (CIP). Shortly after the operating budget is adopted, the CIP is presented, outlining the City's ten-year program for planned capital projects and the means of financing sources for the planned projects.

THE BUDGET CALENDAR FOLLOWS THIS GENERAL SCHEDULE

January – March. Revenues are projected and trends analyzed. Financial trends are developed and presented.

March – June. Financial assumptions and budget targets are communicated to Department Directors. Early input is received from the District Advisory Boards. Operating and capital budgets are developed and reviewed by City Finance/Budget staff, and by the Budget Review Cabinet, which consists of senior City staff. The City Manager conducts a final review, makes final changes, and prepares the budget policy message.

July. The City Manager's recommended operating budget is presented to the City Council.

July – August. Public hearings are held weekly on the operating budget and at special meetings and workshops. City staff members respond to requests from the District Advisory Boards and other groups.

Mid August. After the publication of a ten-day notice of hearing in the official newspaper, a final hearing is held and the budget is formally adopted. After the notice of hearing has been published, the budgeted expenditures for each fund may not be increased, although other changes may be enacted.

August 25. Certification of the operating budget is made to the state of Kansas

Throughout August. The Capital Improvement Program is presented and comments are received, generally in a bi-annual process.

Late summer. The City Manager's Proposed Capital Improvement Program is distributed.

Late summer or early fall. The Capital Improvement Program is presented to the City Council. (The Capital Improvement Program process is explained in greater detail in this document, in the section titled "Debt Service Fund and Capital Projects.")



State Laws and Accounting Practice

Statutes of the State of Kansas govern the operating budget process. Among other provisions, the budget law states that cities must

- prepare annual, itemized budgets,
- account for the prior, current, and ensuing years in specific ways,
- stay within the tax limits for operating and debt funds,
- maintain only limited fund balances,
- hold a formal hearing, with appropriate publication and notice
- complete the process and submit the budget by August 25, and
- not exceed adopted expenditure authority without approval through formal amendment process.

The cash-basis law further provides that cities may not pay any obligation in excess of the amount of funds actually on hand in the treasury at the time for the indicated purpose.

Under state law accounts of the City are organized by funds and groups of accounts. This means that

- each fund in fact is a budget and for accounting purposes has its own set of revenues and expenditures, which must balance,
- expenditures within each fund are limited to the specific purposes of that fund, and
- resources or revenues in excess of current expenditures are not available for expenditures in other funds.

Factors Influencing the Budget Development Process

The amount of available funding determines much of the budget process. Since future revenues cannot be known for certain, the framework for the whole budget development process, in effect, is built upon assumptions about the City's economic and financial future.

✓ **Revenue Projections.** The first step in the budget development process is the projection of revenues by City staff. Trends in the performance of each revenue source are studied, and economic conditions and events that could alter the projections are considered.

By March of each year, the best assumptions about many future revenue sources must be "put on the table." The revenue assumptions become the basis of each fund's projection in the *Financial Plan*.

Many factors affect revenues, including weather conditions (especially important for electric, gas and water utility franchise taxes); legislative proposals related to state-shared revenues (local ad valorem tax reduction fund revenues, and motor vehicle and gas taxes); and local economic conditions (influencing closely the sales tax revenue stream as well as other sources). Economic indicators used in preparing the financial projections and budget are included in the "Other Information" section of this document.

BUDGET REVISIONS, AMENDMENTS, AND ADJUSTMENTS

Early in the year and concurrent with the development of the financial trends and projections, the process begins to revise the current year budget and develop the next year's operating budget. Revisions incorporate the latest available information for revenue and expenditure estimates. In addition, the revisions ensure that the planned programs and service levels conform to any new City Council policies.

BUDGET AMENDMENTS. Under Kansas law, the City Council may amend an adopted budget during an operating year, if unforeseen circumstances create a need to increase the expenditure authority of a fund or budget. A ten-day official notice is published and a public hearing is held before the City Council.

BUDGET ADJUSTMENTS. During the year, budget adjustments in amounts less than \$10,000 are made within funds administratively, as actual program costs develop. Budget adjustments greater than \$10,000, or adjustments that change the intent of a program expenditure are brought to the City Council for action.

FACTORS IMPACTING THE BUDGET DEVELOPMENT

Revenue projections, trends and assumptions

Prior Choices, such as policy decisions, programs, debt obligations

New needs in the community

Community preferences

Limitations imposed by state and federal legislation, the national economy and natural



Forecasting revenues is probably one of the most difficult tasks the City has in preparing a budget. If assumptions are too optimistic, policy makers may adopt programs that will not be supported by actual revenues in the coming year. If assumptions are too pessimistic, the budget process becomes constrained by the need to reduce programs and expenditures, or to find new revenue sources, including tax increases.

Assumptions are stated at the beginning of the General Fund presentation due to their importance in the budget process. The assumptions not only provide a benchmark for adjustments in the actual year of operation, but also allow interested citizens to challenge and improve on the assumptions as the budget is being reviewed.

The revenue forecast is a critical element of the budget process.

✓ **Prior Choices.** The budget process is shaped by many policy decisions and guidelines established by the City Council. For example, the Council has set a revenue reserve for the General Fund of not less than five percent and not more than ten percent of annual revenues. The reserve is thought to be a prudent “savings account” for unforeseen emergencies or shortfalls caused by revenue declines.

Programs supported in the current operating budget represent prior Council commitments that must be continually evaluated to determine if the programs should be sustained, altered, reduced, or eliminated altogether. Reallocations of personnel or equipment, and other modifications involving levels and methods of service delivery in ongoing programs must be undertaken with sensitivity to community preferences, in addition to minimizing disruption to all individuals involved in producing or receiving the service.

Current programs must be reevaluated in each budget preparation cycle.

Debt obligations that have been assumed to pay for the City’s streets and bridges, water and sewer systems, park system, and facilities are another prior choice important in the budget development process. Property tax support for debt service, as a matter of City Council policy, amounts to ten mills, or roughly one-third of all property taxes paid by taxpaying residents in the City.

Closely related to decisions on new debt obligations are the ongoing costs assumed with new capital projects. Future costs of heating and maintaining new buildings, and keeping roads and streets in good condition will add to the annual operating costs.

✓ **New Needs, Preferences, and Limitations.** Finally, new needs and policy directions, as well as unexpected constraints, shape the over-all budget process. Among the most important on the agenda for the City have been public safety, and support for community policing.

Meeting unexpected costs of programs mandated by the federal and state governments, as well as providing for future employee compensation, continue to be critical issues. These and other policy matters are addressed in the City Manager’s letter, or policy message, which focuses the City Council and citizens on the important decisions encompassed in the operating budget.



A GUIDE TO THIS BUDGET

The organization of the budget document is, systematically from front to back, moving from the broadest perspective of service by department to fund specific information. The document is arranged by department with the final section providing reference information to enhance readers' understanding of overall concepts. A companion detail budget document provides specific, in-depth information relative to departments and funds.

The City Manager's Policy Message is the focal point of the entire document. The City Manager's Policy Message presents in policy format the issues facing the City along with the City Manager's recommendations for addressing the issues through the budget.

The City Profile provides a historical outline of the City of Wichita. In addition, the City Profile reports demographic information, as well as information on industry and employment. Selected measures and projections of community growth that have assisted the budget process are reported in the City Profile.

The Budget Process provides a budget calendar and basic information about the budget process.

Summaries of Revenues and Expenditures are in the following section. Often called the City's "total operating budget," the summaries in fact are a combined presentation of operating budgets (or legal funds) that are established as locally funded operations. Trust funds, grant funds, and capital funds are not included.

The largest section of the budget document contains **department presentations** organized within broader service categories. Each department or unit presentation includes a mission statement, an overview of the services provided, a discussion of the financing and operations issues, and key performance data.

The final section of the budget document contains **Other Information**, and provides supplementary detail for the rest of the document.

Budget and Planning Document

Altogether, several documents are produced to be used as tools in the financial planning and policy making process, and are available as references during the implementation of programs:

- **The City of Wichita Financial Plan** presents economic and financial assumptions, preliminary revenue projections, current level expenditure estimates, and balances for five years into the future (generally prepared in the spring of each year).
- **The Proposed Annual Budget** contains the City Manager's proposal to meet the City's operating needs for a two-year (continually rotating) period, along with revenue estimates and decision points for City Council action (published in July). A companion publication, the **Proposed Budget Detail**, provides detailed revenue and expenditure information.
- **The Adopted Annual Budget** contains the operating expenditure limits (by fund) approved by the City Council and certified to the state of Kansas for the coming calendar year (published in November). The companion detail publication is the **Adopted Annual Budget Detail**.
- **The Capital Improvement Program** provides the ten-year program for planned capital projects and the means of financing them.



Governmental Funds. Governmental funds are used to account for operations that rely mostly on current assets and current liabilities.

The **General Fund** finances most current operations (other than operations of the self-supporting proprietary funds). General Fund operations are Police, Fire, Public Works, Park, Library, Art Museum, Law, Municipal Court, Finance, Health, Human Services, City Council, City Manager and General Government (Personnel, Management Services, and Property Management). Primary funding sources are property taxes, motor vehicle taxes, franchise taxes, state-shared revenues, and user fees.

Special Revenue Funds finance specified activities from a dedicated revenue source are presented after general fund activities within each service category.

- **The Tourism and Convention Fund** supports tourist attractions with monies collected through the transient guest tax.
- **The Special Alcohol Programs Fund** receives state-shared alcohol liquor tax revenues, which are spent only for services or programs dealing with alcoholism and drug abuse prevention and education.
- **The Special Parks and Recreation Fund** receives state-shared alcohol liquor tax for the support of park and recreational services, programs, and facilities.
- **The Landfill Fund** receives income through a lease agreement with a private contractor, to support activities at refuse disposal sites and environmental management needs.
- **Central Inspection Fund** utilizes permit and license fees to monitor and regulate compliance with City codes on building construction, housing maintenance, signs, and zoning.
- **The Property Management Fund** utilizes rental revenues and other earnings from City-owned properties to manage and dispose of them.
- **The State Office Building Fund** uses building and garage rent payments, and parking space revenues, to manage custodial and maintenance functions of the State Office Building.
- **The Parking Services Fund** utilizes parking meter and parking facilities revenue to monitor metered spaces and provide for additional parking facilities in the downtown area. At the close of fiscal 2001, the fund will be closed and rolled into the General Fund.
- **The Tax Increment Financing Fund** receives support from a property tax increment in defined districts to fund remediation and clean-up of groundwater contamination, and fund redevelopment projects to prevent or alleviate blighted areas. Districts established to eliminate groundwater contamination also receive funding from potentially responsible parties to assist with the clean-up efforts.
- **The Debt Service Fund** accounts for the payment of interest and principal on long-term general obligation (GO) debt. Sources of funding include property taxes, special assessments, sales tax, bond proceeds, interest earnings, and miscellaneous sources.



Enterprise Funds are used for government functions that are self-supporting. Enterprise funds belong to the group of funds called “proprietary,” and are operated much like a business, with a balance sheet for all long term debt obligations, assets and liabilities. These funds provide services to the community at large, in contrast with internal service funds (another kind of proprietary fund that provides services within the City organization). Each enterprise operation receives revenues from the sale of services or user fees. The operations generally do not receive tax support, except for Transit, which receives a subsidy from the General Fund.

The City has six enterprise funds:

- The **Wichita Airport** provides facilities for public and air freight transportation services.
- The **Golf Course System** provides five public golf facilities that are supported by user fees.
- **Wichita Transit** provides public bus service through fixed route and special charter services.
- The **Sewer Utility** operates and maintains the sewer component of the combined Water and Sewer Department, including wastewater treatment plants.
- The **Water Utility** operates and maintains the water component of the combined Water and Sewer Department, providing and distributing a safe and reliable supply of water.
- The **Storm Water Utility** is responsible for the construction and maintenance of the City’s storm water system.

Internal Service Funds provide services to City departments at cost. Like enterprise funds (which provide services externally), internal service funds belong to the “proprietary” group of funds. The funds are operated like a business, with a balance sheet for all assets, current liabilities and long term obligations.

The City has four internal service funds:

- **Information Technology** is responsible for coordination of the City’s office automation and data processing, and provides centralized management of the large digital switch, long distance usage, smaller telephone systems, and other telecommunications.
- **Fleet and Buildings** includes the equipment motor pool and central maintenance facility.
- **Self-Insurance** accounts for the self-insurance programs of health, workers’ compensation, group life, employee liability, property damage, and general liability.
- **Stationery Stores** provides all departments with office supplies, duplication and printing services, mail room service, photocopying, and microfilming at the most economical cost.

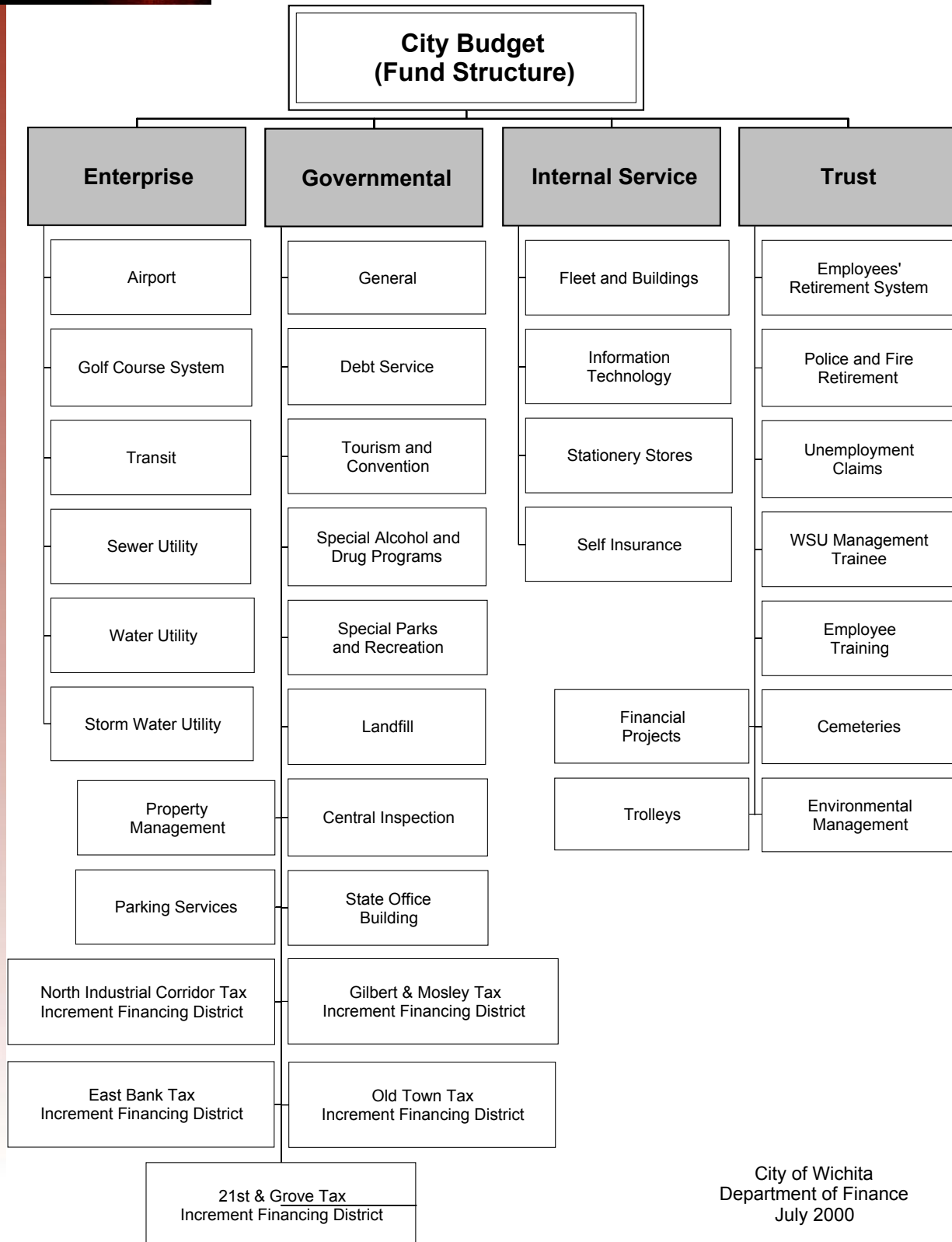
Trust Funds are established when the City is custodian of monies that are to be reserved and used for a specific purpose. The budget document presents trust funds that are expended according to the conditions of the trusts.

- The **Wichita Employees’ Retirement Fund** provides a pension program for noncommissioned employees. The City’s contribution is budgeted within the operating departments.
- The **Police and Fire Retirement Fund** provides a pension program for commissioned Police and Fire personnel. The City’s contribution to this pension program is budgeted within the operating departments.



- The **Employee Training Fund** provides in-house training and workshops for all City employees and off-site training for General Fund personnel, when such training is not offered in-house. The Employee Training Fund will be eliminated at the close of fiscal 2001 and training will be budget directly from the General Fund.
- The **Cemeteries Trust Fund** uses interest earnings and charges for services to maintain Highland Park and Jamestown cemeteries.
- The **Environmental Management Trust Fund** receives revenues through Landfill fees for current and future expenditures related to environmental management concerns.
- The **Trolley Trust Fund** receives contributions, fares, and other revenues to finance operating and maintenance costs of this self-supporting operation.
- The **Economic Development Trust Fund** provides management for the City's ongoing capital financing program as well as the administration for special financing projects.
- The **Wichita State University Management Trainee Trust Fund** supports three management interns in full time cooperative work arrangements with City departments.

The chart on the next page provides a graphic representation of the fund structure utilized by the City budget. Efforts have led to a consolidation of funds (for example, more than a dozen property tax supported funds have now been consolidated into the General Fund and Debt Service Fund). Fund consolidation, along with automated data system accounting, allows improved costing to programs (and cost recovery where appropriate) and maximizes City Council financial flexibility in policy making.



City of Wichita
Department of Finance
July 2000